



## USFRCS MEMORANDUM NO. 44

**TO:** Arizona Charter School Administrators;  
Administrators of School Districts Sponsoring Charter Schools

**FROM:** Magdalene D. Haggerty, Office of the Auditor General  
Vicki G. Salazar, Arizona Department of Education (ADE)

**DATE:** April 1, 2003

**SUBJECT:** Guidance for Classroom Site Projects (Supersedes USFRCS Memorandum Nos. 36 and 38)

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The Classroom Site Fund (CSF) was established in fiscal year 2002 to account for the portion of state sales tax collections provided to charter schools as an additional source of funding for teacher salary increases and other specified maintenance and operation purposes. The amount that charter schools receive from the State to use at campus sites is based on actual tax collections, not to exceed the Joint Legislative Budget Committee estimate. Schools can download the current year estimate of CSF monies they will receive from ADE's Web site at [www.ade.az.gov/districts](http://www.ade.az.gov/districts). Laws 2002, Chapter 301 (Law) revised several requirements for CSF monies' uses and made these revisions retroactive to July 1, 2001. This Memorandum provides guidance on accounting and budgeting for, and reporting on, CSF monies in accordance with current statute.

### **Accounting and Budgeting for CSF Monies**

To adequately monitor and ensure that CSF monies are used in accordance with Arizona Revised Statutes (A.R.S.) §15-977, schools must maintain detailed records of revenues and expenses, and track beginning and ending project balances in three separate projects, as follows:

#### 1011 Classroom Site Project—Base Salary

This project includes 20 percent of the current CSF distributions, and any prior year's unexpended balance and interest earnings. Monies in this project can only be used for teacher base salary increases and teacher employment-related expenses.

#### 1012 Classroom Site Project—Performance Pay

This project includes 40 percent of the current CSF distributions, and any prior year's unexpended balance and interest earnings. Monies in this project can only be used for performance-based teacher compensation increases and teacher employment-related expenses.

### 1013 Classroom Site Project—Other

This project includes 40 percent of the current CSF distributions, and any prior year's unexpended balance and interest earnings. Monies in this project can only be used for the following maintenance and operation purposes: class size reduction; teacher-compensation increases; AIMS intervention programs; teacher development; dropout prevention programs; and teacher liability insurance premiums.

Some employees other than traditional classroom teachers are eligible for compensation increases from CSF monies. Attorney General Opinion I01-014 clarified the definition of "teacher" as it pertains to the CSF. The Opinion concluded that certified teachers and others employed by a school to provide instruction to students on matters related to the campus' educational mission are also eligible for CSF-related compensation increases. Refer to the Opinion at [www.attorney\\_general.state.az.us/opinions/2001.html](http://www.attorney_general.state.az.us/opinions/2001.html) for guidance in determining which employees qualify for CSF-related compensation increases.

The Classroom Site Project (CSP) monies are nonreverting; therefore, unspent monies at fiscal year-end may be used in future years. However, the restrictions placed on the original allocation of revenues apply in all future years. Therefore, the unexpended balance must be carried forward in each of the three detailed CSP (1011, 1012, and 1013) separately. Expenses in any of these projects that would cause the school to exceed the statutory percentages of the revenues in the three individual projects must be reclassified to the Schoolwide Project or other appropriate projects by fiscal year-end before preparing the Annual Financial Report (AFR).

### **Supplanting**

As described above, schools may only use CSP monies in accordance with the statutory revenue allocation restrictions. Schools must also ensure that they do not use CSP monies for administrative purposes, and that the monies they use for teacher compensation increases, or as otherwise allowed by statute, supplement rather than supplant existing monies from all other sources (e.g., federal, state, and local). When budgeting expenses, schools should consider the following guidance to help ensure that CSP monies supplement, rather than supplant, existing monies.

Schools should continue to maintain at least the same level of effort with non-CSP monies. Certain school resources, including those in the Schoolwide Project and many federal and state grant projects, can be used for the same purposes as CSP monies. To the extent that the school has supported such activities with non-CSP monies and those monies are still available, the school should continue to do so.

For example, each teacher's salary must be funded from non-CSP monies to at least the same extent that it was in prior years. Therefore, a school generally cannot decrease the amount paid from non-CSP monies for a teacher's salary while increasing the amount paid from CSP monies. However, if a non-CSP source of funding is no longer available to the school, such as the loss of a grant, the school may be faced with eliminating a position. In this case, a school may be able to use CSP monies to pay for the position as class size reduction under 1013 CSP—Other.

Schools that are experiencing student growth should increase expenses from non-CSP monies to continue supporting school operations at a similar level of effort. For example, a school that decides to increase the number of teachers due to growth in student population should use non-CSP monies, rather than CSP monies. In this situation, adding teachers is considered maintaining the school's prior level of effort rather than class size reduction because it does not decrease the student-to-teacher ratio.

Additionally, schools should consider whether any of their planned uses of CSP monies will result in the appearance of supplanting. If so, schools should clearly document specific information that would support that supplanting did not occur. The following are examples of situations that may appear to be supplanting:

- CSP monies were used to fund additional teacher positions as class size reduction, but the student-to-teacher ratio did not decrease from the prior year.
- Additional CSP monies were used for a teacher's salary, but the teacher's total salary did not increase.
- CSP monies were used for AIMS intervention or dropout prevention programs, but non-CSP expenses for these programs, in the aggregate or per student, decreased.
- CSP monies were used for teacher salaries and allowable programs, while the school experienced growth in student population and a corresponding increase in non-CSP funding, but the use of non-CSP monies for teacher salaries and CSP allowable programs did not increase.

Due to varying circumstances at schools, this Memorandum cannot address all possible situations that might be considered supplanting. Therefore, each school, in considering its own unique circumstances, should determine and document through its accounting records that CSP monies are not being used to supplant non-CSP monies.

### **USFRCS Compliance Questionnaire**

Questions will be added to the USFRCS Compliance Questionnaire for CSP expenses to determine whether monies were used in accordance with statutory requirements and without supplanting non-CSP monies. Currently, auditors should test compliance with the statutory requirements, including those related to CSP monies, as part of their compliance audit work under *Government Auditing Standards*. Schools were notified in May 2001, in USFRCS Memorandum No. 36, that for fiscal year 2001 and all subsequent years, schools should retain detailed payroll records and salary schedules for employees, and expense records for any programs that may be funded with CSP monies in future years (dropout prevention, teacher development, AIMS Intervention, etc.). Schools will need these records to support CSP expenses and to document that they have not supplanted non-CSP monies with CSP monies.

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### **AFR Requirements**

A.R.S. §15-977(E) requires schools to report CSP expenses annually on a per-campus basis and provide a written summary of the programs' results. Beginning with the fiscal year 2002 AFR, a school-wide CSP Narrative Results Summary and CSP Expenses by Campus were included in the USFRCS Memorandum for the AFR.

If you have questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.

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